

IRS News Release

Media Relations Office

Washington, D.C.

Media Contact: 202.622.4000

www.irs.gov/newsroom

Public Contact: 800.829.1040

Dyed Diesel Fuel Penalty Relief Set to Expire

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WASHINGTON — The Internal Revenue Service will not extend penalty relief beyond Oct. 25, 2005, for diesel fuel that is dyed to IRS standards and removed from a terminal after that date.

As announced in IR-2005-118, dated Oct. 6, 2005, the following rules apply after Oct. 25:

- Diesel fuel intended for a nonexempt highway use should not be dyed when it is removed from a terminal.
- Any dyed diesel fuel held by retailers or users on Oct. 25, 2005, can be used on the highway after that date. In the case of fuel that has been dyed at a terminal to meet IRS standards, this relief is available to the operator of the vehicle in which the fuel is used only if the operator or the person selling the fuel pays the tax of 24.4 cents per gallon.
- To the extent permitted by EPA rules, dyed high sulfur diesel fuel received by retailers, including fuel received after Oct. 25, 2005, may be sold for nonexempt highway use if the dye is added only at the refinery to meet EPA standards, and not at the terminal to meet IRS standards. The IRS will continue to waive penalties for nonexempt highway use of high sulfur diesel fuel that is dyed only at the refinery to meet EPA standards. Retailers may rely on the representations of their suppliers that fuel received after Oct. 25, 2005, has not been dyed at the terminal.
- Position holders are reminded that they are required to pay tax on any diesel fuel (including high sulfur fuel) that has not been dyed to IRS standards. Terminal operators should not dye, or add additional dye to any fuel on which tax is paid.